

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Dearborn Heights Tax Increment Finance Authority</u>	County Wayne
Audit Date June 30, 2004	Opinion Date October 13, 2004	Date Accountant Report Submitted To State: December 9, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Dearborn Heights Tax Increment Finance Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2004**

# **Dearborn Heights Tax Increment Finance Authority**

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## Independent Auditor's Report

To the Board of Directors  
Dearborn Heights Tax Increment  
Finance Authority  
Dearborn Heights, Michigan

We have audited the accompanying financial statements of each major fund and the government-wide activities of the Dearborn Heights Tax Increment Finance Authority as of and for the year ended June 30, 2004, which collectively comprise the Tax Increment Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dearborn Heights Tax Increment Finance Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the government-wide activities of the Dearborn Heights Tax Increment Finance Authority as of June 30, 2004 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

October 13, 2004

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# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis**

Our discussion and analysis of the Dearborn Heights Tax Increment Finance Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Captured property tax revenue, the Authority's largest revenue source, increased less than 1 percent over the prior year.
- The Authority spent approximately \$2.4 million on the construction of the police and court facility.
- The Authority spent approximately \$645,000 on the construction of the John F. Kennedy Library.
- The largest taxpayer in the Authority's district, the Central Wayne County Sanitation Authority, has ceased operations and the operating partnership contracted by the Sanitation Authority filed bankruptcy during the current fiscal year. Even with this in mind, the Authority is still able to function and will be able to process the bonds that it has obtained for the Justice Center. Because of the above situation, the Authority has eliminated planned projects to improve the district. Future plans for the Sanitation Authority property are still in the planning stages.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements, by providing information about the Authority's funds.

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis (Continued)**

### **The Authority as a Whole**

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

TABLE I

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets	\$ 6,194,094	\$ 10,516,897
Noncurrent assets	<u>25,986,612</u>	<u>24,290,779</u>
Total assets	32,180,706	34,807,676
<b>Liabilities</b>		
Current liabilities	1,528,602	2,177,205
Long-term liabilities	<u>25,475,000</u>	<u>26,415,000</u>
Total liabilities	<u>27,003,602</u>	<u>28,592,205</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	(428,388)	(32,660)
Unrestricted	<u>5,605,492</u>	<u>6,248,131</u>
Total net assets	<u><b>\$ 5,177,104</b></u>	<u><b>\$ 6,215,471</b></u>

The Authority's total net assets decreased over 2003 by approximately \$1 million, or 17 percent. The Authority had approximately \$702,000 spent toward library improvements, which were not budgeted for since these were paid out of the Capital Projects Fund. In addition, the new police and court facility was placed in service and the Authority had approximately \$505,000 in depreciation expense on this asset.

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis (Continued)**

The following table shows the changes of the net assets during the current year and as compared to the prior year:

TABLE 2

	2004	2003
<b>Revenue</b>		
Property taxes	\$ 3,086,528	\$ 3,062,996
Interest and other	381,629	569,138
Total revenue	3,468,157	3,632,134
<b>Program Expenses</b>		
Public safety	815,725	31,616
Public works	1,536,714	1,013,809
Community and economic development	69,114	127,371
Recreation and culture	706,796	194,643
Interest on long-term debt	1,378,175	1,349,123
Total program expenses	4,506,524	2,716,562
<b>Change in Net Assets</b>	<b>\$ (1,038,367)</b>	<b>\$ 915,572</b>

Total revenue for the Authority remained consistent with the prior year. Total expenses increased approximately \$1.8 million, or 66 percent. This is due to the expenditures related to the library improvements and depreciation on the new police and court facility.

### **The Authority's Funds**

The fund financial statements provide detailed information about the funds of the Authority, not the Authority as a whole. The Board of Directors creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond proceeds. The Authority's funds for 2004 include the Operating Fund, Capital Projects Fund, and Debt Service Fund.

### **Operating Fund Budgetary Highlights**

The Operating Fund of the Authority accounts for all of the annual projects as planned by the Board of Directors. The Operating Fund spent approximately \$3.3 million in the current year, which was approximately \$959,000 more than budgeted. This is due primarily to expenditures that the Authority did not specifically budget for, including interest expense and transfers out.

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis (Continued)**

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### **Capital Asset and Debt Administration**

The Authority spent approximately \$2.4 million on the construction of the police and court facility. As of June 30, 2004, the Authority had completed the construction of this facility and the facility was placed in service. In addition, the Authority paid approximately \$1.3 million in interest on outstanding bonds in the current year.

### **Economic Factors and Next Year's Budgets and Rates**

During the current year, the Central Wayne County Sanitation Authority ceased operations. The Sanitation Authority accounts for approximately 20.4 percent of the Authority's captured tax base.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Dearborn Heights Tax Increment Finance Authority's finances and to show the Tax Increment Finance Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City of Dearborn Heights' finance office at 6045 Fenton, Dearborn Heights, MI 48127.



# Dearborn Heights Tax Increment Finance Authority

## Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2004

	Operating Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments (Note 3)	Government-wide Statement of Net Assets
<b>Assets</b>						
Cash and cash equivalents (Note 4)	\$ 3,753,251	\$ 1,147,591	\$ 67,939	\$ 4,968,781	\$ -	\$ 4,968,781
Due from other funds	172,737	-	-	172,737	(172,737)	-
Due from the City	1,074,589	-	130,200	1,204,789	-	1,204,789
Due from other governmental units	20,524	-	-	20,524	-	20,524
Capital assets not being depreciated (Note 5)	-	-	-	-	2,767,640	2,767,640
Capital assets being depreciated (Note 5)	-	-	-	-	23,218,972	23,218,972
<b>Total assets</b>	<b>\$ 5,021,101</b>	<b>\$ 1,147,591</b>	<b>\$ 198,139</b>	<b>\$ 6,366,831</b>	25,813,875	32,180,706
<b>Liabilities</b>						
Accounts payable	\$ -	\$ 250,924	\$ -	\$ 250,924	-	250,924
Accrued liabilities	-	-	-	-	333,680	333,680
Due to other funds	-	-	172,737	172,737	(172,737)	-
Due to the City	3,998	-	-	3,998	-	3,998
Long-term debt (Note 7):						
Due within one year	-	-	-	-	940,000	940,000
Due in more than one year	-	-	-	-	25,475,000	25,475,000
<b>Total liabilities</b>	<b>3,998</b>	<b>250,924</b>	<b>172,737</b>	<b>427,659</b>	<b>26,575,943</b>	<b>27,003,602</b>
<b>Net Assets</b>						
Fund balances - Unreserved						
Designated for:						
Capital projects (Note 8)	3,486,523	896,667	-	4,383,190	(4,383,190)	
Debt service	-	-	25,402	25,402	(25,402)	
Undesignated	1,530,580	-	-	1,530,580	(1,530,580)	
<b>Total fund balances</b>	<b>5,017,103</b>	<b>896,667</b>	<b>25,402</b>	<b>5,939,172</b>	<b>(5,939,172)</b>	
<b>Total liabilities and net assets</b>	<b>\$ 5,021,101</b>	<b>\$ 1,147,591</b>	<b>\$ 198,139</b>	<b>\$ 6,366,831</b>		
Invested in capital assets - Net of related debt					(428,388)	(428,388)
Unrestricted					5,605,492	5,605,492
<b>Total net assets</b>					<b>\$ 5,177,104</b>	<b>\$ 5,177,104</b>

# Dearborn Heights Tax Increment Finance Authority

## Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended June 30, 2004

	Operating Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments (Note 3)	Government- wide Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 3,086,528	\$ -	\$ -	\$ 3,086,528	\$ -	\$ 3,086,528
Interest and other	66,379	41,710	273,540	381,629	-	381,629
Total revenues	3,152,907	41,710	273,540	3,468,157	-	3,468,157
<b>Expenditures/Expenses</b>						
Public works:						
Administration	173,286	-	-	173,286	-	173,286
Van Born and Inkster Roads water main replacement	618,833	-	-	618,833	-	618,833
Tree trimming	42,870	-	-	42,870	-	42,870
Storm sewer cleaning and lining	489,442	-	-	489,442	-	489,442
Depreciation	-	-	-	-	200,000	200,000
Catch basin repairs	10,378	-	-	10,378	-	10,378
Right/Way maintenance and repair	1,905	-	-	1,905	-	1,905
Public safety:						
Crime prevention officer	30,000	-	-	30,000	-	30,000
Fire station improvements	280,597	-	-	280,597	-	280,597
Depreciation	-	-	-	-	505,128	505,128
Recreation and culture:						
Library improvements	57,016	645,079	-	702,095	-	702,095
Daly Park improvements	4,701	-	-	4,701	-	4,701
Community and Economic Development:						
Westwood School improvements	65,205	-	-	65,205	-	65,205
Industrial Park improvements	3,909	-	-	3,909	-	3,909
Capital outlay - Police building	-	2,400,961	-	2,400,961	(2,400,961)	-
Debt service:						
Principal	-	-	585,000	585,000	(585,000)	-
Interest	1,013,300	-	304,541	1,317,841	60,334	1,378,175
Total expenditures/expenses	2,791,442	3,046,040	889,541	6,727,023	(2,220,499)	4,506,524
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	361,465	(3,004,330)	(616,001)	(3,258,866)	2,220,499	(1,038,367)
<b>Other Financing Sources (Uses)</b>						
Transfers in	154,921	-	615,725	770,646	-	770,646
Transfers out	(615,725)	(154,921)	-	(770,646)	-	(770,646)
Total other financing sources (uses)	(460,804)	(154,921)	615,725	-	-	-
<b>Net Change in Fund Balances</b>	(99,339)	(3,159,251)	(276)	(3,258,866)	2,220,499	(1,038,367)
<b>Fund Balances/Net Assets - July 1, 2003</b>	5,116,442	4,055,918	25,678	9,198,038	(2,982,567)	6,215,471
<b>Fund Balances/Net Assets - June 30, 2004</b>	<u>\$ 5,017,103</u>	<u>\$ 896,667</u>	<u>\$ 25,402</u>	<u>\$ 5,939,172</u>	<u>\$ (762,068)</u>	<u>\$ 5,177,104</u>

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2004**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Dearborn Heights Tax Increment Finance Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

#### **Reporting Entity**

The Dearborn Heights Tax Increment Finance Authority is a component unit of the City of Dearborn Heights, Michigan and is included in the general purpose financial statements of the City of Dearborn Heights, Michigan. The Authority was formed under Act 450 of the Public Acts of 1980 to develop south Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The accompanying financial statements present the Authority.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2004**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental funds:

**Operating Fund** - The Operating Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Projects Fund** - The Capital Projects Fund accounts for the construction of the police and court facility along with contributions toward the construction of the John F. Kennedy Library.

**Debt Service Fund** - The Debt Service Fund accounts for all debt payments made on the outstanding debt balances of the Authority.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2004**

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

**Capital Assets** - Capital assets, which include property and infrastructure assets (e.g., roads), are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building and improvements and roads are depreciated using the straight-line method over the following useful lives:

Building and improvements	5-50 years
Roads	25 years

**Long-term Obligations** - In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# **Dearborn Heights Tax Increment Finance Authority**

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## **Notes to Financial Statements June 30, 2004**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted for the Operating Fund. All annual appropriations lapse at fiscal year end.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses).”

Any amounts exceeding the budget must be approved by Authority’s Board through a budget amendment. The City Council also approves all budget amendments. During the current year, there were no significant budget amendments.

The budget process begins in December and January with the comptroller’s office budgeting the personnel and fringe benefits expense for all City employees and providing the Authority with a budget form to be completed by the Authority’s Board. These forms are due back to the comptroller’s office by late January. The comptroller’s office then analyzes these amounts and calculates the total budget.

In February, the mayor’s office schedules meetings with all major departments, including the Authority’s Board, to review their proposed budget, and the budget is adjusted accordingly.

In late February and early March, the comptroller’s office reviews the budget to verify that it balances. At this time, the mayor’s office reschedules all major departments to do a final review of the departmental budgets. After the final review, the comptroller’s office organizes the final proposed budget to deliver to the Authority’s Board and to the City Council. The City Charter requires that the City Council receive the proposed budget by April 1.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2004

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

During April and May, the City Council reviews the budget with the Authority. City Council meetings, held in April and May, provide all interested citizens an open forum where they can be heard. Upon review, and a subsequent public hearing, the Council adopts the proposed budget by resolution.

The budget must be adopted by the Council by the first Monday in June. After the budget has been adopted, all budget amendments must be approved by the Council.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the current year, the Authority incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
Administration	\$ 22,678	\$ 173,286
Catch basin repairs	-	10,378
Right/way maintenance and repair	-	1,905
Fire station improvements	202,923	280,597
Interest	-	1,013,300
Transfers out	-	615,725

The negative variance for administration expenditures was caused by the corporate fund of the City of Dearborn Heights charging the Authority for personnel used on the Authority's behalf. The negative variance for fire station improvements was caused by additional roof expenditures that were not budgeted for. A budget was not adopted for the catch basin repairs, right/way maintenance and repairs, interest expense, or transfers out in the current year, thus resulting in negative variances.

### Note 3 - Adjustments

Total fund balances and the net change in fund balances of the Authority's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2004

### Note 3 - Adjustments (Continued)

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

<b>Total Fund Balance - Modified Accrual Basis</b>	<b>\$ 5,939,172</b>
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	25,986,612
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	<u>(26,748,680)</u>
<b>Total Net Assets - Full Accrual Basis</b>	<b><u>\$ 5,177,104</u></b>
<b>Total Change in Fund Balance - Modified Accrual Basis</b>	<b>\$ (3,258,866)</b>
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	2,400,961
Depreciation	<u>(705,128)</u>
Governmental funds report interest expense based on amounts paid in cash during the fiscal year; on the statement of activities, interest expense is expensed based upon accrued expense	<u>(60,334)</u>
Repayment of bond principal is an expenditure in the governmental funds, but is not reported as an expense in the statement of activities (where it reduces debt)	<u>585,000</u>
<b>Total Change in Net Assets - Full Accrual Basis</b>	<b><u>\$ (1,038,367)</u></b>

### Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated one bank for the deposit of Authority funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and CDs, but not the remainder of State statutory authority as listed above.



# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2004

### Note 4 - Deposits and Investments (Continued)

The Dearborn Heights Tax Increment Finance Authority deposits and investment policy is in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements as cash and cash equivalents. The entire balance relates to bank deposits (checking accounts, savings accounts, and certificates of deposit).

The bank balance of the Authority's cash and cash equivalents is \$4,868,355, of which approximately \$486,000 was covered by federal depository insurance. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 5 - Capital Assets

Capital asset activity of the Authority's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 2,767,640	\$ -	\$ -	\$ 2,767,640
Construction in progress	18,323,139	2,400,961	20,724,100	-
Subtotal	21,090,779	2,400,961	20,724,100	2,767,640
Capital assets being depreciated:				
Buildings and improvements	-	20,724,100	-	20,724,100
Roads	5,000,000	-	-	5,000,000
Subtotal	5,000,000	20,724,100	-	25,724,100
Accumulated depreciation:				
Buildings and improvements	-	505,128	-	505,128
Roads	1,800,000	200,000	-	2,000,000
Subtotal	1,800,000	705,128	-	2,505,128
Net capital assets being depreciated	3,200,000	20,018,972	-	23,218,972
Net capital assets	<u>\$ 24,290,779</u>	<u>\$ 22,419,933</u>	<u>\$ 20,724,100</u>	<u>\$ 25,986,612</u>

Depreciation expense was charged to the public works and public safety programs as it relates to roads, sidewalks, and the police and court facility.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2004

### Note 6 - Interfund Receivables, Payables, and Transfers

The Debt Service Fund owed the Operating Fund \$172,737 at June 30, 2004. In addition, the Operating Fund transferred \$615,725 to the Debt Service Fund to cover current year principal and interest expense payments. The Capital Projects Fund transferred \$154,921 to the Operating Fund to reimbursement for library improvement expenses paid by the Operating Fund in prior years.

### Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

Long-term obligation activity can be summarized as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Limited Tax Development Bonds	2009	5.70%-6.30%	\$ 2,950,000	\$ -	\$ 450,000	\$ 2,500,000	\$ 450,000
Limited Tax Development Bonds	2019	4.75%-5.00%	3,050,000	-	135,000	2,915,000	140,000
Tax Increment Bonds, Series 2001-A	2031	4.25%-5.00%	21,000,000	-	-	21,000,000	350,000
Total general obligations			<u>\$ 27,000,000</u>	<u>\$ -</u>	<u>\$ 585,000</u>	<u>\$ 26,415,000</u>	<u>\$ 940,000</u>

Annual debt service requirements to maturity for the above bond obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 940,000	\$ 1,276,985	\$ 2,216,985
2006	1,020,000	1,227,547	2,247,547
2007	1,050,000	1,173,760	2,223,760
2008	1,110,000	1,117,086	2,227,086
2009-2013	3,955,000	4,923,389	8,878,389
2014-2018	4,525,000	3,997,817	8,522,817
2019-2023	4,540,000	2,920,266	7,460,266
2024-2028	5,300,000	1,676,250	6,976,250
2029-2033	3,975,000	306,875	4,281,875
Total	<u>\$ 26,415,000</u>	<u>\$ 18,619,975</u>	<u>\$ 45,034,975</u>

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2004

### Note 8 - Designated Fund Balance

The designations of fund balance are as follows:

Water main improvements	\$ 69,089
Curb drops	5,000
Sidewalks	125,000
Gulley Road improvements	400,000
Westwood capital	85,255
Daly park improvements	45,577
Industrial park improvements	488,919
Police and court building	1,840,384
Sanitary sewer lining	16,360
Manhole/Catch basin	139,622
Right of ways	23,141
Library improvements	<u>248,176</u>
Total fund balance	<u>\$ 3,486,523</u>

### Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 10 - Loss of Major Taxpayer

During the current year, the partnership under contract to operate the Central Wayne County Sanitation Authority ceased operations and has declared bankruptcy. The taxable value of the assets owned by the partnership is captured in its entirety by the Tax Increment Finance Authority, where it accounts for 20.4 percent of the Tax Increment Finance Authority's captured taxable value.

In addition, the incinerator run by the partnership is currently before the Michigan Tax Tribunal arguing that their taxes assessed as of July 1, 2004 based on a December 2003 valuation (to be recognized as revenue for the 2005 fiscal year) are not correct. They are arguing that the valuation was prepared under the income method and since the partnership is not in operation, the valuation should be minimal compared to the calculated amount. The levied taxes under the income method are approximately \$350,000. It is anticipated that the incinerator will be razed and the assets related to the current captured taxable value will no longer exist.

## **Required Supplemental Information**

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# Dearborn Heights Tax Increment Finance Authority

## Required Supplemental Information Budgetary Comparison Schedule - Operating Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 5,116,442	\$ 5,116,442	\$ 5,116,442	\$ -
Resources (inflows):				
Property taxes	6,705,297	6,705,297	3,086,528	(3,618,769)
Interest and other	-	-	66,379	66,379
Transfers in	-	-	154,921	154,921
Total resources (inflows)	6,705,297	6,705,297	3,307,828	(3,397,469)
Charges to appropriations (outflows):				
Public works:				
Administration	22,678	22,678	173,286	(150,608)
Van Born and Inkster Roads water main replacement	687,921	687,921	618,833	69,088
Beech Daly Road water main extension	-	-	-	-
Tree trimming	47,910	47,910	42,870	5,040
Storm sewer cleaning and lining	505,802	505,802	489,442	16,360
Catch basin repairs	-	-	10,378	(10,378)
Right/way maintenance and repair	-	-	1,905	(1,905)
Public safety:				
Crime prevention officer	30,000	30,000	30,000	-
Fire station improvements	202,923	202,923	280,597	(77,674)
Recreation and culture:				
Library improvements	250,000	250,000	57,016	192,984
Daly Park improvements	50,278	50,278	4,701	45,577
Community and Economic Development:				
Westwood School improvements	150,460	150,460	65,205	85,255
Industrial Park improvements	492,828	492,828	3,909	488,919
Debt service - Interest	-	-	1,013,300	(1,013,300)
Transfers out	-	-	615,725	(615,725)
Total charges to appropriations (outflows)	2,440,800	2,440,800	3,407,167	(966,367)
<b>Fund Balance - End of year</b>	<b>\$ 9,380,939</b>	<b>\$ 9,380,939</b>	<b>\$ 5,017,103</b>	<b>\$ (4,363,836)</b>